

COMMITTEE HEARING
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
)
Integrated Energy Policy Report) Docket No.
) 02-IEP-01
_____)

SAN DIEGO REGIONAL ENERGY OFFICE
8520 TECH WAY
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STAFF PRESENT

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P R O C E E D I N G S

9:35 a.m.

PRESIDING MEMBER BOYD: Good morning; I want to say thank you to the San Diego Regional Energy Office for the use of their facility. Welcome to our hearing on a draft of the Energy Commission's Integrated Energy Policy Report. I'm Commissioner Jim Boyd, the Presiding Member of the Energy Commission's, I like to call it, IEPR Committee. IEPR, Integrated Energy Policy Report. It's easier than saying that over and over again each time.

Joining me today is Commissioner Geesman, who John and I sit both on the Renewables Committee and on the Transportation Committee, so both fairly heavily invested in the topic before us today.

The Associate Member of the Committee to produce this report is Commission Chairman Bill Keese, who is out of the country at this time, and obviously couldn't make this trip.

Also here at the table with me today are Melissa Jones, Commissioner Geesman's Advisor; on my left is Mike Jones (sic), my Advisor; and on his left Scott Tomashefsky, who is Advisor to

1 Commissioner Keese. Somewhere out in the audience
2 was -- oh, there's Rick Buckingham, also of
3 Commissioner Keese's Office; and Al Garcia,
4 there's all, sorry, you took your jacket off, Al,
5 who is Advisor to Commissioner Pernell. So we've
6 got the Commissioner's offices pretty well covered
7 for this hearing. There's almost more of us than
8 there are of you.

9 San Diego's a great place to visit,
10 although it's nicer when the sun is shining.
11 Anyway, to get down to business.

12 Today's hearing is one of a series of
13 hearings that we've been having on the draft
14 report, to receive input from stakeholders and the
15 public. We've held these hearings throughout the
16 state. There's one more to be held at the end of
17 this week in the Central Valley, and that will
18 finish our round of statewide hearings to, as I
19 say, receive stakeholder comment and input on the
20 draft report, allowing the Committee to finalize
21 the report and present it hopefully to the full
22 Commission at the end of this month.

23 The draft that's before the public,
24 before us today, is the result of many months. In
25 fact, it's been a year worth of months now, of

1 work by the Energy Commission, the Energy
2 Commission Staff, by many other stakeholders and
3 affected state agencies in a series of public
4 workshops, public hearings, and many meetings of
5 the special committee of affected state agencies,
6 particularly those who are named in the
7 legislation. All to get input and points of view,
8 and to allow the Commission to pull together and
9 finalize this report.

10 The statute that called for this report
11 detailed a number of state agencies, and they've
12 been quite active. And we appreciate their
13 participation. By the same token it's in their
14 vested interest since the statute requires that
15 all state agencies who have a role in energy will
16 be guided by the findings of this report and the
17 policies that are ultimately adopted and
18 enunciated by both the Governor in his review, and
19 the Legislature when they finally receive the
20 report.

21 This is the first integrated energy
22 report that this Commission will produce, but not
23 the last, since the statute that required this
24 report calls for this report to be done every two
25 years and provides for an annual update.

1 The Commission has already pretty well
2 set in motion the idea of updating the report next
3 year since the Legislature gave a two-year time
4 schedule to produce this report, but gave us one
5 year to produce this first and probably critical,
6 one of the more important reports. We're doing
7 all we can in this first year to make it as
8 meaningful as possible. But we do plan to produce
9 an update next year, and, of course, are already
10 thinking about the major rewrite called for in the
11 statute in two years.

12 This report has been presumed by many
13 people, because the eyes of the state have been
14 focused for the last two or three years on the
15 electricity arena. But actually this report
16 covers all three major arenas of energy in this
17 state, electricity, natural gas and transportation
18 fuel.

19 Natural gas, everyone has learned
20 painfully in the last couple of years, is joined
21 at the hip with electricity. Most people presume
22 that electricity and natural gas are traveling the
23 road together, but transportation fuel is a third
24 major subject. And I like to refer to them as the
25 three legs of the energy stool upon which the

1 California economy sits. Transportation fuel,
2 electricity and natural gas.

3 And while we've had difficulty for the
4 past two or three years, let's say, with
5 electricity and natural gas, we've actually been
6 having difficulty in the eyes of many in the
7 public and the Legislature for the last three or
8 four years, with the supply and price volatility
9 of transportation fuel. And we don't see that
10 ending in the near future. So, all three energy
11 areas are fairly critical to California's economy,
12 California's future economy, and California's
13 future. And frankly, to us as a society in the
14 Golden State.

15 So, we have recommendations affecting
16 each of these three areas in this report, and we
17 expect to receive input from the public and
18 affected parties in each of these three areas.

19 There are other concurrent activities
20 and subsidiary reports that have helped guide what
21 appears in our final report. And recall the final
22 report that we're talking about today is maybe a
23 30-page, at maximum, document. But it really
24 represents a roughly 3000-page compendium of many
25 many reports that have been produced by the staff

1 of the Commission over the past year, covering
2 each and every one of the areas and sub-areas that
3 affect the three principal areas that I've
4 referenced.

5 And all of that really constitutes the
6 full effort. And you'll hear more about that
7 today. But, in addition to those reports, the
8 three principal electricity/natural gas agencies,
9 the Commission, the Public Utilities Commission,
10 and the Power Authority earlier this year put
11 forward an energy action plan, ratified it at each
12 of the Commission or Board of Directors meetings
13 for those agencies, and looked to that document to
14 guide the activities of the agencies in the
15 electricity and natural gas arena, at least to
16 some degree.

17 And we have tried to provide that the
18 report we produce be basically consistent with
19 that plan. There may be an area of two that are
20 obviously not consistent, but they will be
21 certainly debated.

22 Also the CPUC procurement activities
23 have been underway for quite some time. The
24 Energy Commission has been very much involved in
25 that process, and particularly when it comes to

1 the renewable portfolio standard, or RPS. We have
2 the very principal role to play in the
3 implementation of those provisions along with the
4 PUC.

5 And there's been a whole body of
6 legislative reports required of the CEC and
7 already submitted in the area of transportation
8 fuels that have guided what you find in our final
9 reports. We were requested by the Legislature to
10 study product pipelines and strategic fuels
11 reserves for California, as well as the whole
12 question of how do we just reduce our dependence
13 on petroleum. And to analyze the various price
14 spikes and the supply shortfalls that have
15 occurred in the last year in particular.

16 And in the subject area of natural gas
17 the Governor created a natural gas working group
18 during the electricity crisis, which involves all
19 those state agencies that have anything to do with
20 natural gas. And they have been working actively
21 all this time on the subject of natural gas.

22 So, California's economy, as I said, if
23 not its society, is heavily dependent on energy.
24 And energy in all these areas. Energy is kind of
25 the fuels the engine of the California economy.

1 And I know, speaking for Commissioner Geesman and
2 I, we're quite concerned about that fact, and
3 quite cognizant of the need to continue to fuel
4 that engine in order for the economy to produce
5 what we need in the state to do a lot of the other
6 things that are important to all of us.

7 Therefore, we are very definitely
8 concerned about our energy programs and our energy
9 future. And thus quite concerned and interested
10 that this report capture at least the major
11 issues, and makes recommendations to at least set
12 us on a course to perhaps address the major
13 issues, and address our future.

14 So with that lengthy introduction,
15 Commissioner Geesman, anything you'd like to add?

16 COMMISSIONER GEESMAN: I will turn it to
17 the staff, thank you.

18 PRESIDING MEMBER BOYD: I'll turn the
19 presentation over to members of our staff. It's
20 going to be led off by Thom Kelly, who leads our
21 policy office. And he's going to introduce also
22 Karen Griffin, who's been the Project Manager for
23 this activity.

24 Thom, it's all yours.

25 MR. KELLY: The presentation this

1 morning by the staff -- I'm Thom Kelly, Assistant
2 Executive Director. I work on strategic planning,
3 strategic issues -- is to give you a context for
4 where this report came from, and what it says, in
5 essence in a summary. Sort of a prime-the-pump
6 kind of way.

7 The first biennial report was a weighty
8 tome. Some of you may remember seeing pictures in
9 the newspaper that a floor had collapsed under the
10 storage room. And the news, all news media, there
11 were pictures being taken of a floor hanging out
12 of this storage closet and tons, almost, of
13 reports strewn along the plants. It killed a lot
14 of plants, too, afterward.

15 So in this report we've tried to make
16 our way to more in policy recommendations and less
17 in tons of paper. Karen Griffin has really
18 managed this process from the start. It's a minor
19 miracle in some ways because it got done in a year
20 and normally you wouldn't think that was possible.
21 But it's founded on some pretty good experience at
22 the Energy Commission, starting back in '75 when
23 that first report started.

24 So Karen is going to give you some
25 history from the start of the Commission to how

1 they got all of those reports together pointing in
2 the same direction. Karen.

3 MS. GRIFFIN: Thanks, Thom. Good
4 morning, thank you for coming. Commissioner Boyd
5 gave us a nice summary of how we got to where we
6 are today, so I can go right through mine and we
7 can get to the people that we heard from -- we
8 want to hear from today, which is you all.

9 The Energy Commission actually started
10 state planning over 20 years ago in 1975 with the
11 Warren Alquist Act, which actually started out
12 with a holistic view of energy. It required the
13 Commission to look at electricity and natural gas,
14 conservation, renewables and transportation; and
15 try to put it together in a comprehensive fashion.

16 But what happened over the years, as we
17 were doing these various kinds of analyses, is
18 that the focus became more and more on those
19 things which fed directly into the Energy
20 Commission's efficiency standards, and into our
21 siting cases. So it tended to narrow down on
22 electricity. We're also paid for out of an
23 electricity charge, so to provide best benefit to
24 those ratepayers we did really focus on
25 electricity issues. And there was some spinoff,

1 of course, to the PUC in its activities. And then
2 just information to all of the stakeholders for
3 all of the proceedings that they were engaged in.

4 The Legislature kept wanting to have a
5 number of special interest things. So we had a
6 conservation report, an energy technology report,
7 a renewables report. And every special interest
8 you ever wanted, you know, the next year we'd
9 gather reports. And it was getting quite out of
10 hand and disconnected.

11 The next thing that happened was, of
12 course, during the period of 1998 to 2002 there
13 was first a belief that we were going to be
14 successfully deregulating our electricity and
15 natural gas markets in a way where a look at
16 integrated state policies would not be needed so
17 much, because we were going to be able to
18 structure the market in such a way that we would
19 be affecting the market to make the right
20 decisions.

21 And as you recall, we didn't quite get
22 it right. But one of the consequences of that
23 decision was that the state capability to look at
24 these kinds of things atrophied. There was a
25 state budget crisis in the early '90s. We lost a

1 number of staff. And we got into crisis
2 management, to monitoring and to doing special hot
3 spot reports.

4 During 2002 the Legislature decided that
5 they had made sort of a fundamental, wanted to go
6 back to having a more integrated state look. And
7 so Senator Bowen re-energized -- shouldn't use
8 that word -- reorganized the energy planning
9 function. And recreated this what's now called an
10 Integrated Energy Policy Report.

11 And it really stands on sort of three
12 main technical stool; electricity and natural gas,
13 because, as you all know, electricity and natural
14 gas are now integrated. They're the same market
15 because natural gas is the marginal fuel for all
16 of our electricity choices.

17 Then, of course, energy efficiency,
18 demand side management, renewables, R&D programs,
19 those are all responses to the fundamental
20 intersection of demand and supply in electricity
21 and natural gas.

22 So we looked at the supply and demand
23 issues in electricity and natural gas. We then
24 pulled out to put a spotlight on the things that
25 the public interest was particularly interested

1 in, like conservation, renewables, dynamic
2 pricing. And had a special focus on that.

3 Then the transportation fuels, although
4 it doesn't link too closely right at the moment
5 with electricity and natural gas, in the future we
6 do see an increasing link. But more importantly
7 it comes from common drivers. It's the same
8 600,000 people being added to our state every
9 year. It's the same economy. It's the same
10 mental sort of business just-in-time, very tight
11 supplies, environmental concerns that there's a
12 desire to sort of have as much infrastructure as
13 we need, but not one bit more; ratepayer concern
14 so we don't want to pay a lot for sort of the slop
15 in the system that we might have had, say, 15
16 years ago.

17 So the same mental matrix, the same
18 fundamental markets are driving what we're looking
19 at in transportation. And so you'll see when we
20 talk about the recommendations, the
21 recommendations are often very similar across
22 sectors because they're facing sort of similar
23 economic drivers.

24 The other thing that underlies all of
25 this, which is perhaps unique to the Energy

1 Commission's contribution to energy policy in the
2 state is a big focus on the environment. We have
3 a whole separate activity on the environmental
4 impacts. It starts out as just looking at the
5 environmental impacts of thermal power plants.
6 That got expanded to look at all power plants and
7 to start to work into the natural gas sector.

8 And I've heard the Commissioners give us
9 direction for the future that in the next report
10 we'll be looking at the whole oil cycle, as well.
11 So we'll be looking at oil refineries and
12 pipelines and the marine infrastructure.

13 And finally, wrapped around that is the
14 state's concern about global climate change,
15 because many of the emissions which are
16 contributing to the human elements of global
17 climate change come from the burning of fossil
18 fuels.

19 The framework that we set up -- we can
20 just sort of zip right over this because
21 Commissioner Boyd explained it, biennial report
22 with an annual update on a few selected topics, so
23 we can all breathe and get some sort of background
24 work done. Then we'll come back in 2005 with
25 another big one.

1 But the first thing that the
2 Commissioners are going to be doing with the
3 recommendations that they and you decide is we
4 will be presenting these to the Governor because
5 the Governor has until February 1 to look at this
6 report and then is required by statute to issue an
7 official state energy policy based on the work
8 that's been done here. Though he or she has the
9 prerogative to change that obviously if they want
10 to.

11 So, there will be an intensive period
12 after this is adopted, working with the Governor's
13 Office. And then presenting key recommendations
14 to the Legislature in terms of things we would
15 like to see, new legislation.

16 I think I've already talked about the
17 issues. So the last thing I just want to hit is
18 the public process.

19 The Commission started in September of
20 last year with its first scoping hearing, so you
21 can see we did actually do this in a year. We
22 had, I tend to forget, nine collaborative agencies
23 who were integral parts of this. That includes
24 the Public Utilities Commission, the Electricity
25 Oversight Board, the Office of Ratepayer

1 Advocates, the Air Resources Board, the California
2 Independent System Operator is another one of
3 these collaborative agencies, Caltrans, Department
4 of Motor Vehicles.

5 We had 18 full days of hearings on the
6 subject -- hearings and workshops on the subject
7 of this, plus an additional set of ten hearings
8 that were just focused on transportation issues
9 and petroleum dependency.

10 I was very surprised when I started
11 counting through the transcript and we had 140
12 organizations that provided either written or oral
13 comments and various presentations and gave us the
14 benefit of their ideas.

15 And over 3000 pages of staff products,
16 comments, and I think that's not even counting all
17 the PowerPoint presentations. And all of these
18 are available on our website, including the
19 transcript. So, there's a rich underlay of these
20 policy recommendations and an enormous amount of
21 data that's available for all of you to use as you
22 sort of can tailor it to your own particular
23 needs.

24 And with that I'm going to turn it over
25 to Thom Kelly to talk about what the report

1 actually says.

2 MR. KELLY: We have a theme which stayed
3 through the report, and it is essentially carrying
4 the message for focus on infrastructure. If you
5 carry nothing else away with you today, or from
6 reading this, look at the infrastructure. That's
7 what we think is the most important thing to focus
8 on.

9 To insure that the infrastructure is
10 built and does the right things that we need,
11 providing reliable power, reasonably priced
12 energy; supporting the economy and protecting the
13 environment. This is the theme that was in all
14 three of those subsidiary reports. And it's a
15 theme that stays in the policy report at the end.

16 But just wishing for these things will
17 not make them happen. We know that actions need
18 to take place. Some certain groups, certain
19 people need to take some steps to make these
20 things come about.

21 The way we've presented this integrated
22 policy analysis is beginning with those three legs
23 of the stool that Karen talked about, through the
24 coordinated, almost -- public opinion, public
25 comments, sister agency, other agency

1 interactions. A number of organizations
2 contributed because they will be using this
3 information after the report gets adopted, as it
4 becomes policy, parts of it, finally policy for
5 California. It will lead to the good things that
6 we think are in store for all of us, including
7 economic growth and reasonably priced energy.

8 What do we do now? We have this report,
9 publishing another report, not just another report
10 we hope, but something that has recommendations
11 that people can relate to.

12 And we've characterized these things,
13 these recommendations we've made in four basic
14 areas: harvesting energy efficiency being the
15 first and foremost. That echoes the energy action
16 plan that was adopted by the three agencies.
17 Energy efficiency first and foremost.

18 We also want to diversify fuel types.
19 We want to reduce not only our engineering and
20 physical dependence on different forms of energy,
21 but the economic dependence, too. The two are
22 related, but they can be different.

23 We want to encourage customer choice,
24 which should be a part of any future market
25 structure analysis that we have. And all of that

1 is to lead to improved infrastructure. Some
2 things are directly needed and recommended for the
3 infrastructure.

4 The principal recommendations. Well,
5 there are a lot of recommendations in this report.
6 The several reports have many which are sort of
7 summarized and selected from to put in the policy
8 report, which are then summarized and selected
9 among to create the recommendations in the
10 executive summary, which I've used to summarize
11 further and put on just a couple of slides here
12 for you.

13 These are not necessarily the most
14 important. They may not be the ones of most
15 interest to you, but since I had the pen I chose
16 these because they were interesting to me.

17 The first, of course, energy efficiency
18 programs. We want to find 100 therms of natural
19 gas additional conservation beyond what is already
20 included in what we expect to occur reasonably.

21 Another 1200 megawatts of electricity in
22 addition to the some 1800 megawatts that are
23 currently funded by programs today, and we expect
24 to continue.

25 Another 1500 to 2000 megawatts from the

1 dynamic pricing which is slowly starting to take
2 place in California.

3 For a total of about 4500 to 5000
4 megawatts additional conservation. That's a lot
5 of power plant equivalents.

6 We propose to accelerate the RPS
7 standard that is supposed to go into effect by
8 2017. The energy action plan recommends that it
9 be adopted or completed by 2010. And we recommend
10 legislation to further solidify that. Let's make
11 it happen.

12 Customer choice has got to be a part of
13 any market structure, and if we have reserve
14 requirements, we believe that all the participants
15 in providing load should provide some of that
16 reliability, as well.

17 We like to use minimum amount of fresh
18 water in and around power plants; new power plants
19 are being examined for water use in many different
20 ways as they come before us. And back in 1975 the
21 Energy Commission was given one-stop siting
22 authority for generation. At the time generation
23 was the big question; it was the big social issue
24 and economic issue for the state. And the
25 Commission was created with one-stop siting to

1 help get through the process and get the power
2 that we needed where it was needed.

3 At the time we did not have bulk
4 transmission issues; we did not have petroleum
5 infrastructure issues which we have today. I
6 wonder if these issues had been present at that
7 time, the Energy Commission might well have been
8 given siting authority for that.

9 And based on our last almost 30 years of
10 experience with this siting process, we recommend
11 that bulk transmission and the petroleum
12 infrastructure siting be granted, consolidated and
13 be asked, the Energy Commission, to oversee it.

14 And our final recommendation I wanted to
15 talk about was the reduction on onroad petroleum
16 use by 15 percent over today's levels. That's
17 quite an ambitious goal. But given our current
18 refinery infrastructure and oil product imports,
19 it's probably a prudent thing to do.

20 The next steps. You are part of our
21 next steps. Today we're in San Diego. We've had
22 three hearings before today on this topic. We
23 have one more in Bakersfield at the end of the
24 week. And this is leading to a proposed draft
25 that would be published by the 17th of October,

1 which is nine days and counting. Leading to a
2 consideration by the Energy Commission of adoption
3 on the 29th business meeting.

4 Quickly turnaround to send over to the
5 Governor's Office. And by February 1st the
6 Governor will issue the official policy for the
7 state.

8 PRESIDING MEMBER BOYD: Thank you, Thom.
9 Before turning to the public and getting your
10 comments and testimony I just want to echo one
11 thing that Thom did point out pretty clearly, but
12 it's a fairly dominant theme. And that is
13 efficiency in the energy arena.

14 As you know, California found a strong
15 need to turn to conservation and efficiency during
16 the depths of the electricity crisis, and that
17 helped pull us from those depths.

18 Natural gas, which I indicated earlier,
19 joined at the hip with electricity, has been
20 recognized nationally now as a problem and an
21 issue, probably as a result of Federal Reserve
22 Chairman Greenspan's testimony a few months ago.
23 Everybody's into the natural gas worry now. And
24 DOE, I note, called right away for efficiency.

25 And in the recent report of the

1 Petroleum Council I noted efficiency is back as a
2 major component.

3 And as you'll find in our previous
4 reports and leading to this report and the
5 transportation fuel arena, you know, the siren
6 call is for efficiency. Efficiency in improving
7 fuel economy of the vehicles of the future.

8 So this is a major and dominant theme of
9 our report. And I don't think we're out of line
10 at all with what's going on in the country. We're
11 not the first to talk about fuel efficiency in
12 vehicles, but we may be the first to bring it back
13 up for yet another national debate.

14 On that point I'd like to turn to
15 members of the public. Those of you who wish to
16 speak here today, we ask that you fill out a blue
17 card. Many of you have, and I will be calling
18 names from that. But if anybody missed the blue
19 cards in the back of the room, that's the way you
20 get to speak here. We have staff in the back of
21 the room with blue cards for you to fill out and
22 to bring forward.

23 We ask when you come to the microphone
24 that you clearly state your name and your
25 affiliation because there are people listening out

1 there. And further, if you would, provide our
2 reporter here with a business card. It will help
3 him in pulling the record together. And we like
4 to have speakers clearly identified in the record,
5 because we look to the record to help us in
6 reviewing the results of today's hearing, and then
7 finalizing our recommendations.

8 So, with those housekeeping items
9 hopefully out of the way, I'll turn to the first
10 card. Now, if anyone has time constraints and
11 needs to leave before a certain time, please if
12 you already sent your blue card in and didn't note
13 that, well, get another one and send that message
14 up here, or let us know some way or another.
15 Because we'll certainly accommodate your timing
16 constraints. Otherwise, we kind of just take
17 these in the order received.

18 So with that I will call upon Tom Blair
19 first. Somebody has to be first.

20 (Laughter.)

21 MR. BLAIR: Good morning, Commissioners.
22 I'm Tom Blair; I'm the Deputy Environmental
23 Service Director and Energy Administrator for the
24 City of San Diego. My position didn't exist
25 several years ago, and was created as an outgrowth

1 of the energy crisis.

2 The City, itself, uses approximately 200
3 million kilowatt hours of energy each year; it
4 produces about 155 million kilowatt hours. We
5 have extensive self-generation through landfill
6 gas systems and hydroelectric systems through our
7 sewer outfall. And we also have a starting
8 process of getting photovoltaics installed. We
9 have three buildings currently in operation with
10 at least 30 kW; most of them are 60 kW systems.

11 The local governments in the region have
12 been increasingly interested in what has been
13 happening in the energy environment. And we have
14 recently created a working group of the largest
15 cities within the region that consists of the
16 County of San Diego, the City of San Diego, the
17 Cities of Carlsbad, Chula Vista, Oceanside and
18 Escondido.

19 And we have jointly submitted energy
20 efficiency programs in the round of PUC hearings
21 that are currently going on for the 2004/2005
22 third-party program funding.

23 We believe the city governments need to
24 be more involved in the processes for the
25 administration of the energy efficiency funds, and

1 think that we have the built-in infrastructure
2 already existing within our community service
3 centers and public outreach through the
4 governmental process to provide outreach to the
5 citizens and the ratepayers within the region.

6 We have the City of San Diego on its own
7 has created a 50 megawatt renewable energy goal
8 within the next ten years. And we're starting to
9 pursue that at this time.

10 We have also forwarded the idea or
11 created the idea through the regional energy
12 infrastructure study that was completed by SAICA
13 couple years ago, and a recent regional energy
14 strategy that was adopted for the region of San
15 Diego; it was adopted by SANDAG in July of this
16 year. We are now moving toward some type of a
17 regional energy authority to represent the total
18 interests of the region. And we think that that
19 is an appropriate entity that could interact more
20 closely with all of the regulatory agencies to be
21 able to shape policy for the local San Diego
22 region. Because we do have some unique situations
23 here, as far as transmission constraints, et
24 cetera.

25 We do want to reduce our dependence on

1 the fossil fuels. We do have a large
2 concentration of fossil fuel generation plants at
3 this time. The City, of course, is moving toward
4 more renewable energy processes. But as a minimum
5 we need to repower the local power plants, get
6 them off the reliability must run contracts. They
7 are running and causing a lot of pollution,
8 because there are no other plants in the local
9 region to support the transmission grid.

10 We're also looking forward to the AB-117
11 hearing process to determine what, if any, effect
12 the local community aggregations could have on
13 future energy policy for the region.

14 And that's it, thank you.

15 PRESIDING MEMBER BOYD: Thank you very
16 much.

17 COMMISSIONER GEESMAN: Yes, thank you.

18 PRESIDING MEMBER BOYD: You mentioned
19 transmission and I note that The San Diego Union
20 Tribune had an editorial in early September about
21 the fact that deregulation ignored power
22 transmission. I found that an interesting
23 article, anyway; carry it in my San Diego folder
24 here.

25 All right. Second, and I may have

1 trouble reading this name, sorry. Kurt Kammerer.
2 Probably only partly close.

3 MR. KAMMERER: Good morning,
4 Commissioners. Actually that was right on the
5 money, Commissioner Boyd. My name is Kurt
6 Kammerer; I'm the former Executive Director of the
7 San Diego Regional Energy Office. And now a
8 consultant in energy policy, planning and
9 programs.

10 I brought my comments written today;
11 they're being handed out. Hopefully they'll make
12 it all the way up through. But I would like to
13 highlight some of these comments in my
14 presentation this morning.

15 First of all, Mr Blair mentioned the
16 energy infrastructure study that we accomplished.
17 We started that process two years before the PUC
18 ordered the utilities to go back in the resource
19 planning process, recognizing that long-term
20 planning is critical for us to get out of the mess
21 that we were experiencing back in 2000, 2001.

22 And as we accomplished that study of
23 which I worked with Tom and many others and in
24 SAIC, and was one of the prime authors, we went
25 back and looked at the energy plans that were

1 developed in 1979, 1994, and recently adopted just
2 this past year, and I chose to make that my kind
3 of the theme of my comments this morning: Let us
4 learn from our mistakes and not let history repeat
5 itself once again.

6 What we found in these, the energy plan
7 of 1979, I'm referring to the regional energy
8 plan, San Diego's plan, that many of the
9 initiatives that were adopted this year were the
10 same goals and objectives and initiatives that we
11 adopted time and time again. Increased emphasis
12 on renewables to diversify our fuel supply, which
13 was overly reliant on natural gas back in the
14 1970s. An increased emphasis on conservation and
15 efficiency, which again, I appreciate is our
16 number one priority. And increased emphasis on
17 distributed generation; that really never happened
18 in the last 20 years.

19 So I just encourage -- while I don't
20 want to seem critical of this current effort, I
21 just encourage us to move quickly and remember,
22 we've all been here before many many times.

23 With respect to harvesting energy
24 efficiency opportunities, I applaud your keeping
25 that as the number one priority. Many of us have

1 been involved in this issue for the last six to
2 eight years, back when the California Board for
3 Energy Efficiency was started.

4 When the California Energy Commission
5 and the Office of Ratepayer Advocates issued
6 reports back in 1998, 1999, concern for the
7 drawdown of investment in energy efficiency as a
8 precursor to deregulation.

9 We have not yet recovered from that
10 shifting of the energy efficiency infrastructure.
11 And we're now all trying to grapple with how are
12 we going to do that. Some of those issues are
13 who's going to administer the public good programs
14 for the next ten years.

15 What process will be established, what
16 fair process to allocate these funds in the most
17 efficient manner. We still don't have incentives
18 in place to make sure that these dollars are spent
19 appropriately. Meanwhile, we're six to seven
20 years down this path, spending upwards of \$250
21 million a year on these energy efficiency
22 programs.

23 The Energy Commission issued a report
24 back in 1999 that looked at several paths that the
25 state could take with regard to these issues. And

1 I thought the report was very interesting. I
2 think it was called power for a new millennium.

3 In that the Commission made several
4 recommendations regarding efficiency programs and
5 moving forward. That report is four years old. I
6 have people come up to me every so often and say,
7 this is not even an issue. The CEC's figured this
8 all out. Didn't you see that report. Well, that
9 was the report that was published in 1999.

10 So my comment here is, again, let's not
11 recreate the wheel. And we've learned a lot in
12 the last four years. One of the issues that the
13 Commission was critical of in that report was
14 establishing a separate, nonprofit structure to
15 administer these programs. Well, since that time
16 many states have ventured down that path. In
17 fact, the San Diego Regional Energy Office, I can
18 say this now without self-serving interest that
19 I'm not with the Office, is a successful model of
20 a nonprofit entity granted on the regional basis
21 to administer these programs. I think many in
22 this region with the exception of maybe one key
23 stakeholder would agree with that.

24 During the energy crisis this energy
25 office, with a staff of one-third that it has

1 today, was implementing your cool roofs program
2 throughout all of southern California. And it
3 deployed 27 million square feet of cool roofs from
4 the border of Mexico to the border of Kern County.
5 And it also took on the self generation program
6 for all of San Diego.

7 So my point is, again, let's look at
8 what we did years ago; let's learn from what we've
9 accomplished in the last four years.

10 I'm also somewhat concerned about the
11 reliance on the traditional resource planning
12 process, where I think long-term resource planning
13 is very important. In fact, the City, the County,
14 the Regional Energy Office and many agencies that
15 invested a half million dollars in the energy
16 infrastructure study two years ago, long before
17 the utilities and the PUC got back into resource
18 planning, we recognized that long-term planning is
19 key. We were looking out 30 years.

20 While we agree that long-term planning
21 is important, we don't agree that we should go so
22 far as to throw everything into resource planning.
23 And an example is it's somewhat disconcerting that
24 the utilities are making the argument that in
25 order for them to deliver efficiency they must

1 have sole control of the energy efficiency funds.

2 While I think conservation and
3 efficiency is very important, so is generation, so
4 are renewables, so are transmission
5 infrastructure. The argument is not being
6 advanced that the utilities control all
7 generation. The argument is not being made that
8 they control the deployment of all renewables.
9 They're making no argument for the deployment of
10 distributed generation.

11 So my comment is let's place a very
12 strong emphasis on long-term resource planning,
13 but let's be very careful. We've been here
14 before. Twenty years ago we were talking about
15 deploying distributed generation as part of our
16 resource planning process. We were talking about
17 increasing our renewables to diversify our supply.
18 But there's not sufficient incentives. And I
19 don't see sufficient incentives coming in the next
20 two, three years for the traditional resource
21 planning process.

22 I don't mean to sound critical of the
23 utilities. The utilities are in the business to
24 make profits for their shareholders. They do that
25 well. They're in the business to build

1 infrastructure, and they do that well.

2 I think we should encourage the
3 utilities to build strong infrastructure, focus on
4 infrastructure, and to let those things that the
5 competitive market does best, let the competitive
6 market deliver those things, like generation, like
7 efficiency, like distributed generation, like
8 alternatives. Or they won't happen. I'm
9 concerned they won't happen like they haven't
10 happened in the past 20 years.

11 I apologize, I didn't have time to look
12 into all the details of the much testimony that
13 was a precursor to this. I was a little concerned
14 that the report was very silent on distributed
15 generation and the importance of distributed
16 generation.

17 A year ago today I testified at the
18 Energy Commission's public hearing on distributed
19 generation, where I started to suggest the numbers
20 that were coming out of the regional energy
21 infrastructure study of the impacts of distributed
22 generation on San Diego's infrastructure. The
23 potential for alleviating the need for
24 distribution and transmission infrastructure. The
25 potential for alleviating peak demand at the

1 critical hours.

2 And, you know, since that time, it was
3 very disturbing that that whole infrastructure
4 study was essentially ignored by the utility in
5 their 20-year resource plan. However, we have
6 seen a tremendous increase in distributed
7 generation and renewables in San Diego. We're
8 projecting upwards of 6 megawatts of solar, alone,
9 in San Diego.

10 So, I would encourage the Commission to
11 place a greater emphasis on distributed
12 generation. And I didn't see any recommendations
13 at all in that area. But think there's a lot more
14 opportunity than the report lends itself.

15 My final two comments, one on
16 infrastructure I mentioned. We should encourage
17 and incentivize the utilities to focus on
18 infrastructure.

19 I think secondly there's an opportunity
20 to incorporate the land use planning process. One
21 of the goals of the San Diego Association of
22 Governments in developing the regional strategy
23 was to plug in energy to their land use and other
24 issues that were under the jurisdiction of the
25 Council of Governments.

1 And let me give you an example.
2 Allocating land corridors that are needed for
3 future growth in transmission. Had we done this,
4 and it's just not possible. Due to the regulatory
5 constraints, it's difficult for utilities to site
6 more than five years out. But had we done this
7 10, 15 years ago, we knew that there was a major
8 infrastructure corridor needed in the north/south
9 direction. We built I-15. We were taking care of
10 our water needs, but we were not taking care of
11 our electricity needs.

12 By the time we got around to building
13 this electricity infrastructure, many new home
14 developments, wine country that rivals Napa Valley
15 was placed right where we needed our transmission
16 line. So it should be no surprise to us today
17 that that line was defeated.

18 So, what I'd like to encourage us to do
19 is focus on infrastructure, support the utilities
20 and yourself to work with local land use planners,
21 looking for those needed corridors. But we need
22 to be looking at those 10, 15, 20 years out. And
23 maybe zone those corridors such that when we get
24 around to building the next transmission line we
25 don't spend \$5-, \$10-, \$15-million in litigation

1 because there happen to be homes built on that
2 site.

3 Lastly, I do admire the Commission's
4 focus on transportation energy. I think there's a
5 tremendous amount that can be done in that area.
6 But I would hope it wouldn't necessarily divert us
7 from the electricity and natural gas crisis that
8 is still upon us. And quite honestly, I'm
9 concerned about -- and many in the region are
10 concerned -- three to four years when the next
11 crisis rolls around.

12 In the transportation area I think
13 there's some other things we can do with respect
14 to incentives for carpooling, for mass transit.
15 Those vehicle license fees that are increased, you
16 know, why don't we encourage some of this to be
17 invested in finding solutions to wean ourselves
18 off of our dependence on petroleum.

19 My comments are getting long. I didn't
20 mean to sound critical of this report. In summary
21 I'd like to say it's a great start, but let's look
22 at what we've learned in the past two decades.
23 And let's also look at what's happened in the last
24 four to five years, and not jump back to six,
25 seven, eight years ago. A lot of good has

1 happened in the last four years. This is an
2 example of one of those things.

3 This could be a model for the state
4 moving forward, at least on a regional basis, this
5 being the San Diego Regional Energy Office. And I
6 encourage you to not throw the baby out with the
7 bath water.

8 Thank you.

9 PRESIDING MEMBER BOYD: Thank you, Mr.
10 Kammerer. I didn't think you went on too long,
11 and you have the experience to give us some good
12 advice.

13 You did mention the motor vehicle fees,
14 car taxes. That's a hot potato right now. And,
15 anyway, that, too, shall pass perhaps.

16 Mike Evans.

17 MR. EVANS: My name's Mike Evans. I'm
18 with Shell Trading Gas and Power. And I'd like to
19 address some aspects of LNG policy with the
20 Commission's report.

21 The report addresses the importance of
22 permitting new LNG facilities which we certainly
23 commend. And also commend the interest in
24 increasing the supply of natural gas and looking
25 at fuel diversity.

1 However, let me just suggest that
2 permitting is not the entire problem. And that
3 we've seen many power plants permitted in the
4 state, and yet they haven't been able to be
5 completed because of the business rules that have
6 been associated with cost recovery on those
7 plants.

8 In a similar fashion, if we're looking
9 at LNG facilities on the west coast, we need a set
10 of business rules that companies can make
11 decisions on in order to justify those
12 investments.

13 In particular, since the report is
14 intended to point out the issues associated with
15 energy, I would encourage you to consider
16 identifying the need to define terms of access,
17 and how rates are structured with a new LNG
18 facility.

19 And secondly, I would encourage you to
20 consider how upgrades to the gas infrastructure to
21 accommodate the new supply of gas will be
22 allocated back to customers or to entities that
23 are interconnecting to the existing pipeline
24 system.

25 We need to concentrate on a climate that

1 invites investment from companies, long-term
2 investment. Our current rate-setting processes
3 are in two-year and five-year cycles that can be
4 revised. We need long-term, stable policies that
5 insure that an investment can be recovered.

6 So simply, if the state cannot describe
7 its business rules, then the permitting process
8 won't make a difference.

9 So, we commend the Commission for
10 identifying the need to increase supply of natural
11 gas through LNG facilities, and the importance,
12 which we agree on, on permitting those facilities.
13 But equally important, we would encourage you to
14 identify the need to address terms of access and
15 how upgrades to the gas transmission
16 infrastructure will be accommodated.

17 Thank you very much.

18 PRESIDING MEMBER BOYD: Thank you very
19 much.

20 Scott Barnett.

21 MR. BARNETT: Good morning, Mr.
22 Chairman, Members of the Commission. My name is
23 Scott Barnett and I'm here today representing a
24 coalition called Stop Hidden Gas Taxes. You
25 probably get a sense of what the focus of our

1 discussion is going to be about today.

2 This Coalition includes members such as
3 the California Chamber of Commerce, California
4 Farm Bureau Federation and the California
5 Taxpayers Association. And we appreciate the
6 opportunity to speak before you today.

7 My comments are focused primarily on the
8 transportation fuel section of your report, which,
9 in our view, has the potential to lead
10 dramatically to higher gasoline and diesel costs
11 in this state with predictable results for
12 employers and working Californians.

13 In particular, the report's
14 recommendation that the state adopt the goal,
15 arbitrarily in our view, forcing consumers to
16 reduce gasoline and diesel usage by 15 percent
17 sets the stage for all kinds of mischief under the
18 guise of trying to meet this goal.

19 Your Commission has already shown us
20 what could be considered, and to be the honest
21 consequences, of such actions. And these
22 consequences are frightening.

23 The report claims that this 15 percent
24 goal could easily be achieved if the federal
25 government enacts new fuel efficiency standards.

1 But there's no guarantee that our friends in the
2 federal government will take this action; and no
3 evidence that it will reduce the use of gas and
4 diesel fuel in California even if they did.

5 Your own report shows that dramatic
6 increases in fuel efficiency have actually
7 accompanied increases in fuel consumption here.
8 So if increased fuel efficiency doesn't decrease
9 gasoline use, how then to meet this magic 15
10 percent threshold.

11 In an early draft of this report your
12 staff outlined what we see as the state's real
13 options to meet this goal. It was an honest look
14 at how to achieve this arbitrary goal; honest, but
15 not pretty.

16 Strategies included adding 50 cents per
17 gallon to the state's gasoline tax; and taxing the
18 purchase of trucks and SUVs, including, I assume,
19 Arnold's Hummer in that. Most incredibly of all,
20 a new tax was proposed that would levy 2 cents on
21 every mile California drove each year; the
22 implementation of that would be quite interesting
23 to watch.

24 The previous speaker or speaker
25 beforehand talked about the VLF issue, as well.

1 That, the Chairman said, is pretty controversial
2 at this point. And I think looking at these other
3 taxes that you're discussing I think it's probably
4 good that this Commission is not subject to
5 recall, because of the anger that the other
6 proposal helped create in the state.

7 Following the Commission's roadmap might
8 get us a 15 percent reduction in fuel demand. But
9 it would already increase the already high cost of
10 gasoline by as much as \$1 to a gallon. It would
11 add about \$13 billion a year in new taxes. And
12 most troubling, it would be responsible for
13 killing off another 140,000 jobs in the state.
14 And that's according to a report by Ted Gibson,
15 who is a former State Department of Finance
16 employee who completed that report.

17 Your report once included a 15 percent
18 goal and realistic ways of achieving that 15
19 percent goal reduction. Now it just has a goal
20 but no realistic way for the state to achieve it.
21 Unfortunately, if we adopt your report and its
22 arbitrary goal, we will be all but requiring the
23 harmful job-eating taxes you outlined in previous
24 reports.

25 For the sake of California's economy I

1 urge you not to force it to bear the burden of
2 meeting the goal demanded by this report.

3 Thank you for your time.

4 PRESIDING MEMBER BOYD: Thank you.
5 Commissioner Geesman has a question.

6 COMMISSIONER GEESMAN: You mentioned
7 that recommendation about taxes was contained in
8 an earlier draft of the report. Do you know if
9 that draft was ever adopted by the Commission?

10 MR. BARNETT: I wouldn't know whether it
11 was adopted. But in our view, if you are going
12 to --

13 COMMISSIONER GEESMAN: Do you know if
14 any Commissioner ever approved that particular
15 recommendation?

16 MR. BARNETT: You would know that better
17 than I.

18 COMMISSIONER GEESMAN: Well, I think I
19 do.

20 MR. BARNETT: So this is a hypothetical
21 question you're asking me? It's a question you
22 already know the answer to?

23 COMMISSIONER GEESMAN: I'm trying to
24 figure out how you got so much misinformation
25 about what the Commission, itself, is actually

1 recommending.

2 MR. BARNETT: Actually I didn't say the
3 Commission recommended that.

4 COMMISSIONER GEESMAN: You used the word
5 Commission.

6 MR. BARNETT: I said that the Commission
7 is recommending -- or this report is recommending
8 a 15 percent reduction --

9 COMMISSIONER GEESMAN: Yes, it is.

10 MR. BARNETT: -- in fuel usage. We
11 believe that setting this goal without any actual
12 specific methods on how to do it is basically
13 misleading, in itself, and --

14 COMMISSIONER GEESMAN: I think --

15 MR. BARNETT: -- the staff, itself, --

16 COMMISSIONER GEESMAN: -- it does have
17 some specific recommendations as to how to do it.
18 Taxes are not among those.

19 MR. BARNETT: Right. And we think
20 they're unrealistic. We think it's basically a
21 red herring. And the only way you could
22 realistically do it is these other methods.

23 But, we will see. Thank you.

24 PRESIDING MEMBER BOYD: Well, just for
25 the -- you may sit down. I don't have any

1 questions for you, but so the audience doesn't go
2 away totally misled on this subject, and start a
3 recall petition for the Energy Commissioners --

4 (Laughter.)

5 PRESIDING MEMBER BOYD: As Commissioner
6 Geesman was saying, over the past year, as the
7 consultants for and the staffs of both the Air
8 Resources Board and the Energy Commission studied
9 the whole subject matters that I laid out earlier,
10 strategic fuels reserve, and product pipelines
11 from the Gulf, and ways to reduce dependence on
12 petroleum, certainly every conceivable idea was
13 analyzed and put forward.

14 As Commissioner Geesman tried to
15 indicate, the Commissioners and the Board Members
16 of the Air Resources Board, in adopting the final
17 recommendations and recognize the academic
18 correctness of many of the recommendations, that
19 the political impossibility of many of them were
20 also recognized, including all of the issues that
21 the gentleman brought forward. The idea of taxes,
22 pay-at-the-pump insurance, VMT fees and what-have-
23 you, were rejected as ideas that were plausible
24 and feasible, practical in today's climate in
25 California.

1 So technical goals were set forward, and
2 other ways of achieving the goal that was set
3 forth. And while it's true that we are dependent
4 on the federal government to deal with CAFE,
5 somebody has to step out and say that it's a
6 meaningful issue economically to this country, if
7 not to this state, and that's the purpose of us
8 putting this issue forward.

9 However, there's a caveat in our report
10 that says that should we fail in our mission to
11 energize other states and other communities and
12 other interest groups in helping push the idea
13 that it's time to improve the efficiency of
14 vehicles, which has already been proven to be
15 technologically feasible, and not at the expense
16 of the safety of the population, should we fail
17 then the goal would be revisited.

18 So there is no guarantee that the goal
19 means we really intend to put on our black hats
20 and dip down into those issues that the gentleman
21 brought forward.

22 I appreciate the concern that he has,
23 and he has every right to bring that issue
24 forward. And I hope we've cleared the air a
25 little bit. I think in my introductory comments I

1 mentioned how concerned we were about any impacts
2 on the California economy. And that we certainly
3 don't have any intentions of undermining the
4 California economy. It needs to be built up in
5 order to support these issues.

6 And one of the things that concerned
7 this Commission was the fact that on a fairly
8 regular basis the public of California is
9 subjected to conventional transportation fuel
10 shortfalls and huge price spikes. And that's
11 because the system we have to produce conventional
12 fuels is at its maximum.

13 With the worldwide demand for
14 transportation fuels being what it is, and having
15 just returned from a three-week vacation in China,
16 and having seen the incredible traffic there,
17 where less than 1 percent of the population even
18 has an automobile, and there's 1.3 billion of
19 them, people in China, I'm quite concerned that
20 there will be a real push on transportation fuel.

21 Therefore, the idea is to once again
22 stimulate alternative fuels, to stimulate other
23 forms of mass movement of people, and to stimulate
24 efficiency in vehicles. Otherwise we will have an
25 economic dilemma facing California.

1 So, if we have a difference of opinion,
2 so be it. But that is what's driving us to be
3 concerned about this particular subject area. And
4 I only say this because I feel a lot of people can
5 potentially get misinformed about what our
6 intentions are.

7 So, excuse the speech, but if we don't
8 put some fires out right away, they turn into
9 massive conflagrations, we've seen.

10 All right, Mr. David Richter.

11 MR. RICHTER: Good morning.

12 PRESIDING MEMBER BOYD: Good morning.

13 MR. RICHTER: My name is David Richter.
14 I'm a principal environmental scientist. I'm with
15 Ninyo and Moore here in San Diego. We're a
16 relatively small geotechnical environmental
17 consulting firm with offices in -- six California
18 office locations, plus Arizona, Nevada and Utah.
19 Our clientele includes energy-related entities
20 such as utility companies, oil and gas petroleum
21 companies, but also transportation agencies;
22 military, municipal and government agencies and
23 private commercial businesses.

24 We applaud the Commission for its hard
25 work in the area of energy policy and appreciate

1 the challenges you're tackling with regard to
2 energy independence and efficiency.

3 Energy conservation makes sense all
4 around. It's good for consumers, good for the
5 environment, it's good for business.

6 However, we are, similar to the previous
7 speaker, and I won't go into the details. I
8 appreciate your comments, Commissioner Boyd. We
9 are still concerned about unintended consequences
10 of the mandate of encouragement, the
11 recommendation of the arbitrary cut in gasoline
12 demand by the 15 percent, or other figures that
13 may have been tossed about, and increase in
14 nonpetroleum fuel use by the 20 percent.

15 This seems to be an unrealistic
16 assessment of the market capabilities at this
17 time. And we're just concerned that similar to
18 the other speaker, that it will lead to higher
19 fuel costs.

20 And we're concerned about how exactly
21 will demand be reduced. If it's going to occur
22 through natural market forces, swing consumers to
23 alternative behavior in technology, that's fine.

24 But if that was the expectation we don't
25 think that these recommendations would be

1 necessary in the report.

2 So, realizing that you've set aside
3 these other options that have been put forth in
4 terms of how to encourage this behavior, the cut
5 in demand and the increase in alternatives, we
6 think that there is going to be a significant
7 increase in cost of petroleum fuels, at least
8 those fuels that our client and our employees use
9 to get around on their day-to-day business and in
10 the professional business. And we're concerned
11 that the use of alternatives that are now tabled
12 may rise to the surface again. And ultimately
13 will, to reach the goals that are in your report,
14 will result in higher costs in fuel.

15 The demand for gas is increasing in
16 California, and is going to continue to increase,
17 because of the state population growth and the
18 need for people to drive to work, drive to the
19 grocery store, soccer field, et cetera.

20 And these affect us in the business
21 front, as well. Our firm, like all others,
22 incorporates the fuel and vehicle costs into our
23 cost of doing business. Efforts to reduce
24 imposing these higher fuel costs on a client is
25 only going to result in our lower profitability

1 immediately. Therefore, these costs we have to
2 pass on to our clients. That will only postpone
3 or reduce profitability as our clients, reduce
4 their utilization of our services to cut costs.

5 It's a small loop in a larger cycle of
6 the mounting business costs, to reduce business
7 due to higher cost of doing business, and business
8 and consumer flight in the face of these higher
9 costs. We're afraid that the current cycle of
10 economic contraction will be accelerated in that
11 way.

12 Our experience with many types of
13 energy, not limited to petroleum, seems to us that
14 the sources are getting cleaner and more efficient
15 all the time. And that the providers are working
16 hard to do better in that regard.

17 But a market-based common sense approach
18 seems to be the best road to the energy efficiency
19 and independence without the pain that we've also
20 often seen from top-down regulatory directives.

21 But we appreciate your work; appreciate
22 your hearing these comments. And we look forward
23 to working with our clients to meet the state's
24 goals.

25 Thank you very much.

1 PRESIDING MEMBER BOYD: Yes,
2 Commissioner Geesman.

3 COMMISSIONER GEESMAN: I have a fair
4 amount of sympathy for the market-oriented
5 responses to these kinds of problems. I think
6 that in this particular area the choice that the
7 Energy Commission and the ARB faced in adopting
8 the precursor to this report were between a
9 package of what I think the prior speaker
10 indicated, hidden, hidden gas taxes, VMT fees and
11 what-have-you, that the Reason Foundation has put
12 forward as a preferable reliance on economic
13 mechanisms.

14 A regulatory approach, which we
15 ultimately embraces, which called for an
16 aggressive expansion of the CAFE standard, which
17 is a federal standard, but one which we felt
18 lending our voice to would be consistent with what
19 the California public wants. As well as
20 responsive to a debate that's currently going on
21 in Washington.

22 The Public Policy Institute of
23 California surveyed Californians earlier this
24 summer and found some 70 percent felt that we
25 should radically increase the CAFE standard,

1 including population group that a lot of
2 environmentalists like to demonize, SUV owners.
3 Fifty-nine percent of SUV owners felt that we
4 should aggressively expand the CAFE standard.

5 So it seems to me if we're going to do
6 anything at all with respect to transportation
7 fuels, and our increasing reliance on petroleum,
8 we've got a choice between a regulatory approach,
9 which the state agencies have embraced and called
10 for the federal government to do; or a market-
11 based approach, which frankly involves fees and
12 taxes.

13 A third alternative of doing nothing, I
14 think, will keep us on an unsustainable path that
15 we're going to face first here in California,
16 because our refinery capacity is so limited.

17 Now, another component of our
18 recommendations which hasn't received much
19 attention now is to streamline our permitting
20 process. But I don't think anybody expects a new
21 refinery to be built.

22 We're going to have some marginal
23 expansions in existing refining capacity, as we
24 have had over the last 20 years, but more likely
25 you're going to see a continued preference to

1 import refined product, gasoline or diesel. And
2 we need to improve our permitting process to make
3 it easier to add those facilities.

4 But if there's another alternative that
5 I'm missing, please point it out. Because we're
6 searching for options here. And I understand the
7 public doesn't appear to like the fees and taxes
8 approach. You and the prior speaker don't appear
9 to like or place much faith in the regulatory
10 approach. If there's a third way, I'd like to
11 know it.

12 MR. RICHTER: This is a question?

13 COMMISSIONER GEESMAN: Hope so.

14 MR. RICHTER: Okay. Well, I don't know
15 the third way. My point primarily is in whatever
16 process is enacted, I agree with making permits
17 easier to come by for refineries and other
18 facilities. I agree with the petroleum
19 distribution network being improved.

20 Ultimately what I agree with is keeping
21 the cost to the consumer down by whatever method
22 is most --

23 COMMISSIONER GEESMAN: Everybody wants
24 to see that.

25 MR. RICHTER: -- effective.

1 COMMISSIONER GEESMAN: Everybody wants
2 to see that. The consumer actually has more faith
3 that a regulatory approach will work, and he'll
4 never see the cost of that regulatory approach.

5 Now, we all know that regulatory
6 approaches do carry costs with them.

7 MR. RICHTER: I don't know that
8 consumer.

9 COMMISSIONER GEESMAN: Well, the
10 surveyors have found that. And most of them would
11 prefer to see efficiency improvements radically
12 increased. The belief is, I think, that that's a
13 free lunch. Now, I don't think that it is a free
14 lunch. But, I'm also looking at a situation where
15 we haven't touched our CAFE standards for 20
16 years. And I can't figure out why that makes any
17 sense at all.

18 MR. RICHTER: I can't offer the third
19 approach you're looking for. My message, I guess,
20 is only an encouragement in the direction that
21 I've described.

22 COMMISSIONER GEESMAN: Thank you.

23 MR. RICHTER: Thank you.

24 PRESIDING MEMBER BOYD: Thank you.

25 Michael Shames.

1 MR. SHAMES: Good morning. Commissioner
2 Boyd, --

3 PRESIDING MEMBER BOYD: Good morning.

4 MR. SHAMES: -- thank you for
5 accommodating my schedule. My name is Michael
6 Shames, and I am the Director of Utility Consumers
7 Action Network.

8 Most of you who have been doing energy
9 for quite awhile know of me, about me, and know
10 that UCAN's job has often been a critical one.
11 Critical of utilities, critical frequently of
12 commissioners who are overseeing the energy
13 fields.

14 So it is with some trepidation that I
15 appear here today. I was going to bring my pom-
16 poms and my cheerleader's outfit, do a song for
17 you, because, you know, I want to cheerlead most
18 of what you've done here. You've actually done a
19 pretty good job in this report. And you should be
20 congratulated for that.

21 Regrettably, my focus is going to be on
22 the things where you might have gone a little
23 stronger, you might have done a little better.
24 And so I want to spend a little time with you
25 talking about those things.

1 A couple of preambles. One, Mr.
2 Richter, my name is Michael Shames; I represent
3 about at least 33,000 San Diegans who pay dues to
4 UCAN. And a lot of those, if not the majority of
5 those individuals, believe that there is a role
6 for regulation. And that relying strictly on the
7 market can be dangerous. In fact, there's even a
8 guy named Adam Smith who actually believed the
9 same thing. So there are a lot of people out
10 there who are looking for regulatory approaches.

11 I think, as Commissioner Geesman
12 understands and appreciates, as do we all, that
13 right now what we're faced with is not an
14 either/or regulation or market-base, but it's
15 going to be a combination of both. And that's
16 what this country has been doing, as have other
17 countries, including China, have been doing for
18 decades, if not longer.

19 Let's cut right to the chase on the
20 substantive issues in the report that I think
21 warrant your attention. First off, let's talk
22 about gasoline. UCAN has been actually quite
23 aggressive and in an unprecedented way has
24 monitored the gasoline markets here in San Diego
25 and in southern California for over seven years

1 now. Beginning around 1996 we actually began
2 surveying every -- I can't say every, but over 500
3 gasoline stations just in San Diego. And posting
4 the prices on a weekly basis.

5 So as in our view it was to stimulate
6 customer choice. In doing so we've learned a lot
7 about how the gasoline markets work. And you are
8 to be congratulated and encouraged in recognizing
9 the importance of transportation fuels and needs
10 for reforms to deal with the very awkward
11 situation we have right now with gasoline.

12 What I was sad not to see in this report
13 was the role for regulation, greater regulation in
14 a market that we feel is competitively
15 dysfunctional. And I think it's not just UCAN.
16 If you talk to the Attorney General's Office, you
17 talk to a lot of people in academics, they will
18 voice the same thing. The gasoline markets that
19 we're seeing right now in California are eerily
20 reminiscent of the wholesale electric markets that
21 we were looking at in 1999. There is a remarkable
22 amount of consolidation in the markets. There's
23 probably tremendous amount of competition
24 throughout each of the elements of the gasoline
25 markets.

1 And I say with some regret that many of
2 us who monitor gasoline markets, we cringe every
3 time we hear the California Energy Commission make
4 a public statement regarding the gasoline markets.
5 Your forecasts are traditionally wrong. Your
6 explanations for why or how long certain
7 disruptions in the markets are going to take are
8 wrong.

9 And it is really sort of embarrassing
10 that the Energy Commission, which as been charged
11 with oversight of the gasoline markets, has done
12 as poor a job as it has. Recognizing that you
13 have effectively a dysfunctional competitive
14 market.

15 And many of the cycles that we are
16 seeing right now, and the severe price volatility
17 that we're seeing right now in the gasoline
18 markets, I think, are evidence of the
19 consolidation. You point out, I think properly
20 so, that we're max'd out capacity-wise.

21 And as we saw with the electric markets,
22 when you have tighter and tighter supplies, price
23 swings can be extremely volatile; moreso than
24 you'd imagined before.

25 So I would encourage you in this report

1 to think in terms of not just diversifying our
2 fuel and making some of the changes you talked
3 about in the gasoline markets, but also there is a
4 role for greater oversight and greater reporting.

5 I think if you don't want to get into
6 the purview of refinery cops, similar to how we
7 have generation cops, I guess, by the PUC, I think
8 it's getting pretty close to where you may need to
9 do that. Because we are seeing evidence of where
10 a refinery outage may make more money for a
11 gasoline company than actually having that
12 refinery produce at maximum capacity. So I
13 encourage you to look at that more carefully.

14 Enough of gasoline, let's talk about
15 electricity. You do mention, contrary to what Mr.
16 Kammerer said, you do mention distributed
17 generation. I think on page 20 you talk about
18 encouraging distributed generation.

19 I agree with Mr. Kammerer that you do
20 need to give that more attention. Not only is
21 self generation -- and mostly when I talk about
22 distributed generation I'm going to talk about
23 renewables, non-fossil distributed generation.

24 I think it deserves greater import for
25 two reasons. One, I think it is probably the real

1 customer choice that will be available to some 90
2 percent of the customers in California. Very few
3 residential or small business customers will have
4 the opportunity to engage in retail market
5 choices. But they may have an opportunity,
6 especially if photovoltaics and fuel cell markets
7 develop, they may have an opportunity to self
8 generation, either as a complement to utility
9 service, or independent of utility grid service.

10 I think it's something that needs to be
11 encouraged because just of the mass number of
12 customers who may be able to benefit from that.
13 But also a second reason that is surprisingly
14 absent from this report.

15 Distributed generation, especially non-
16 fossil distributed generation, may be a major
17 economic driver for California. Michigan and
18 Illinois have already recognized these
19 technologies may be economic engines for their
20 state economies.

21 It seems unfortunate that California
22 isn't recognizing it and trumpeting the potential
23 for economic development with the development of
24 these new technologies. And not just in DG, but
25 also in energy efficiency, which I think you've

1 already highlighted.

2 So I would encourage you to recognize
3 there may be a tremendous benefit to promoting
4 distributed generation and other energy
5 technologies for the purposes of bringing jobs and
6 economic income to the state, rather than seceding
7 that advantage to other states like Illinois and
8 Michigan that have developed state programs
9 towards motivating, stimulating those industries.

10 Consolidated transmission siting.
11 Intriguing concept. The greatest concern that
12 UCAN has about your venturing into transmission
13 siting is other cost issues. Transmission lines
14 are not just controversial because they are sited
15 in areas that are sensitive or in people's
16 backyards, or through developed areas, but they
17 are also, for that matter, in environmentally
18 sensitive areas, such as national forests --
19 there's also serious concerns about ratepayers
20 being subjected to massive, and we're talking
21 about many hundreds of millions of dollars in
22 investments that need to be paid off over 30
23 years, for infrastructure that well may not be
24 useful in 30 years or 20 years.

25 And locking ourselves into those long-

1 term commitments, capital intensive commitments,
2 may also serve as a disadvantage, or a zero-sum
3 game that may take away money that might be better
4 spent on some of the technologies I've talked
5 about earlier, distributed generation technologies
6 or energy efficiency technologies. It is sort of
7 a zero-sum game.

8 And so the cost issue, in comparing, is
9 the investment in transmission infrastructure as
10 reasonable. Will we get as much bang for the buck
11 as we would if we invested in some of these other
12 emerging technologies where we can produce
13 generation cleanly and locally. That's a tradeoff
14 that you must be considering if you want to get
15 into the transmission siting business. Anybody,
16 any state regulator needs to be considering these,
17 if you want to enter that business, I would hope
18 that you would add that criteria to the plate of
19 things that you'll consider in doing transmission
20 siting.

21 Let's wrap up because I've been talking
22 too long. There were a lot of comments that you
23 heard both by Mr. Kammerer about energy efficiency
24 administration. The City of San Diego pointed out
25 how San Diego is actively interested in developing

1 a regional energy authority whose role may include
2 energy efficiency administration, as well as the
3 administration of other public goods funds.

4 I would encourage this Commission to not
5 just encourage what San Diego is pursuing, but
6 also perhaps encouraging other municipalities and
7 regions to do similar things. You are a resource
8 for the state. You should be able to provide both
9 counsel, as well as some expertise for regions
10 that want to become more involved in energy
11 planning and energy administration, involved in
12 the energy business.

13 So I would encourage you to serve that
14 role, as well. And I thank you for your time and
15 coming to San Diego.

16 PRESIDING MEMBER BOYD: Thank you.
17 Commissioner Geesman.

18 COMMISSIONER GEESMAN: Michael, I
19 certainly want to embrace your comments about the
20 importance of considered cost on transmission
21 facilities. But I also want to say a couple
22 things about that.

23 One, the average residential bill in
24 California pays about 3 percent of the average
25 residential bill goes for transmission services.

1 I think this is an area where the risk of over-
2 investment is substantially lower than the risk of
3 under-investment, in terms of the economic impact
4 on the customer.

5 We saw that in 2000/2001 where the
6 absence of adequate transmission capacity between
7 northern and southern California directly
8 contributed to several of the blackouts that
9 occurred in the Bay Area.

10 We also, I think, saw that less directly
11 in terms of the inability to better bring downward
12 pressure on prices, and allow market power to be
13 exploited in certain congested transmission areas
14 in 2000 and 2001.

15 And I think historically this area, in
16 particular, probably would have enjoyed lower
17 rates had you been better interconnected to the
18 Northwest, and had more access to surplus power
19 from Bonneville.

20 So, I do think that it's important in
21 any integrated resource planning effort to pretty
22 cold-heartedly compare costs of different options.
23 And to consider there to be different options to
24 transmission. There are generation options and
25 there are nongeneration, or nonwires options.

1 But I also think that this is an area
2 where the risks are asymmetric. We need to
3 recognize that historically we have under-invested
4 in many parts of the state in our transmission
5 system. And that correcting that under-investment
6 is likely to be to the great economic benefit of
7 consumers if we do so.

8 MR. SHAMES: Could I respond?

9 COMMISSIONER GEESMAN: Please.

10 MR. SHAMES: I'm fearful that much of
11 your logic is circular. We created a wholesale
12 energy market that relied on transmission. So,
13 certainly we had transmission constraints, and we
14 had price spikes as a result of those transmission
15 constraints. We had blackouts as a result of
16 those transmission constraints.

17 Had we designed a market that was less
18 reliant on or dependent on transmission you
19 wouldn't have had blackouts in San Francisco,
20 because San Francisco would have had greater
21 generation capability internally.

22 If we had more of a better demand side
23 responsiveness programs in place you wouldn't have
24 seen blackouts in the rest of the state.

25 So, yes, we rely on transmission as an

1 integral part of the overall balance. But I think
2 what you may be under-value is that any
3 incremental investments in transmission, yes, it's
4 a small percentage of residential ratepayers'
5 bill. But that same percentage, it's still \$450
6 million, for example, to build Valley Rainbow,
7 could be used to build a tremendous number of non-
8 fossil fuel renewable power generation
9 capabilities, or buy us energy efficiency that may
10 produce a whole lot more flexibility for the
11 region than transmission line.

12 And so you still have to consider we
13 have sort of a zero-sum gain. Yes, we can invest
14 \$450 million in power line, but could that same
15 \$450 million bring us more bang for the buck
16 employed in another fashion. And that's, I guess,
17 what I'm encouraging you to think about.

18 COMMISSIONER GEESMAN: Thank you.

19 PRESIDING MEMBER BOYD: Thank you. Bill
20 Powers.

21 MR. POWERS: Good morning; my name is
22 Bill Powers, Chair of the Border Power Plant
23 Working Group here in San Diego. I'd like to
24 thank Commissioner Geesman and Commissioner Boyd
25 for making the trek down to San Diego, saving me a

1 little Southwest Airline travel.

2 I'd like to begin with just a detail
3 comment. I noticed that in the report there's a
4 mention of the Public Interest Energy Research
5 program is investing in research to develop low-
6 cost dry cooling technologies. And I wasn't aware
7 of that program.

8 I don't know who at the Energy
9 Commission is responsible for that, but I'd be
10 very interested in getting a little bit more
11 information about what that is about.

12 The second comment I'd like to make is
13 on the issue of LNG, which is a very hot topic
14 down here on the border region. The report does
15 make a comment that LNG terminals are a potential
16 source of natural gas, the Baja region; and then
17 we need to overcome regulatory barriers, however,
18 that may inhibit the use and distribution of LNG
19 in California.

20 And we did have a California LNG Act of
21 1978. I think it was sunsetted a couple of years
22 after that. One of the interesting things about
23 that Act is that they did define what they
24 considered appropriate onsite requirements for LNG
25 terminals. Indicated that the terminal should not

1 have -- the population density within a mile of
2 the fenceline should not be more than ten people;
3 population density within four miles of that
4 fenceline should not be more than either 40 or 60,
5 I don't remember which it was.

6 But the reason I bring that up is in
7 California over the last year we've had two
8 onshore facilities withdrawn. We had the Mare
9 Island Shell Bechtel proposal that was withdrawn
10 due to community issues. OxyPetroleum in Oxnard
11 withdrawn, same, community issues.

12 And that this was the result of
13 community activism; there was no state government
14 agency involved or oversight.

15 There's been a lot of activity on the
16 LNG industry symposium circuit of which David Maul
17 has participated, and so have I. And one of the
18 things that's come out of that is an emphasis on
19 offshore terminals.

20 Now, a recent proposal off of Point Mugu
21 20 miles, is VHP Billiton. This proposal is
22 offshore, it doesn't use seawater for re-gas. And
23 the reason I bring it up is in the context of the
24 Baja plants. And just one more comment there,
25 which is we have in some ways a showdown is about

1 to occur in California. Mitsubishi has proposed
2 an onshore LNG terminal in Long Beach Harbor,
3 surrounded by hundreds of thousands of people.
4 VHP Billiton has proposed an offshore facility 20
5 miles off of Ventura.

6 And the Baja projects, with the
7 exception of Chevron Texaco, which changed their
8 project from onshore to offshore, are all onshore
9 and all near people. And it's my understanding
10 that the consortiums that have proposed these
11 projects in Baja have, in part, done it because of
12 perceived regulatory hurdles in California.
13 Easier to put it there. We've got pipeline
14 infrastructure, we'll get it up to California.

15 It may not -- I may be reading between
16 the lines, but when I look at this statement in
17 this document it seems to be saying that let's
18 overcome the regulatory barriers getting gas from
19 Baja into California.

20 But in reality what's happened as a
21 result of these hurdles is we now have an
22 excellent project, the VHP Billiton project off
23 the coast of California that meets any pragmatic
24 environmentalist requirements for, and safety risk
25 experts requirements for a plant. It also, as I

1 understand it, will provide tax revenues directly
2 to California.

3 And so I'd just like to advise the
4 Commission that this is a very dynamic situation.
5 And that as a result of the dynamism, the
6 situation in California is now getting excellent
7 LNG proposals that you may want to address in the
8 final version.

9 One other comment about Baja gas, which
10 is, I think, at least for the industry insiders
11 considered the issue, is gas quality. All the
12 liquefaction plants on the Pacific Rim currently,
13 with the exception of Alaska, which is a very
14 small facility, make what's called hot gas, IBtu
15 gas. It doesn't meet our CNG vehicle
16 specifications, at least the ethane content spec.

17 South Coast Air Quality Management
18 District did a test of what they called hot gas,
19 1150 Btus, which is quite a bit less hot than some
20 of the existing liquefaction facilities. And what
21 they found was a linear increase in NOx to Btu
22 content in the devices that they have no controls
23 on them, water heaters, space heaters, which
24 number in the millions in the South Coast.

25 And so the gas quality issue, I guess I

1 just want to let the Commission know that if
2 overcoming regulatory barriers means relaxing, for
3 example, SoCalGas rule 30 or the CNG spec to get
4 hot gas in through Baja, I don't think that's an
5 advisable approach. Especially given projects
6 being proposed in California.

7 As I understand it, the VHP Billiton
8 project meets our specs. They're not planning to
9 request a waiver or any other type of pass on the
10 specifications. And I have no connection with VHP
11 Billiton of any kind, except that we've been, the
12 Border Power Plant Working Group has been
13 advocating offshore LNG facilities that don't use
14 seawater for re-gas, which I'm sure that all of
15 the CEC, the Commissioners and the staff are well
16 aware, is a very controversial issue for our
17 coastal power plants. And it really behooves us
18 not to repeat that same controversy with LNG
19 terminals.

20 Switching to water. Comment on page 26,
21 water supply, although power plant cooling uses a
22 relatively small amount of water when compared to
23 the needs of other industries, it can cause
24 significant impacts to local water supplies. I
25 would like to point out that the Commission has

1 licensed almost 50,000 acrefeet of fresh water in
2 the Central Valley over the last five or six
3 years.

4 And by my calculations, based on the
5 draft environmental report this summer, that's
6 about 50,000 acrefeet. And that's enough water
7 for approximately 500,000 people. Again, I'm not
8 certain on the population statistics, but I think
9 that probably is the population of the southern
10 Central Valley. So I think it's a little bit more
11 significant than stated in this document.

12 And I'm almost done, just another couple
13 of minutes, but a final comment that is made in
14 the water discussion on the next page, Energy
15 Commission will only approve the use of fresh
16 water for power plant cooling proposed by power
17 plants when alternative water supply sources or
18 cooling technologies are shown to be
19 environmentally undesirable or economically
20 unsound.

21 And I think we'll all agree that on the
22 siting decisions that the devil is in the details.
23 And when you look at the actual record, the siting
24 decisions in the south Central Valley, or in the
25 Central Valley, the ones that I've been involved

1 in, the term economically unsound has not been
2 defined by the state board. And that is used
3 repeatedly by applicants to say economically
4 unsound, to go dry in this case would be
5 economically unsound.

6 You have no basis for making your
7 decision on what is economically appropriate. And
8 we see a series of decisions where these plants
9 are certified to use fresh water. And I think
10 that that has been a problem in the licensing
11 process. I think the words about protecting our
12 water are good. We have done it. And I think we
13 need to find a way to do it.

14 And what I would request, and I know
15 this is a big request, but the report that was
16 written, or at least a report written in the
17 workshop in February of 2001, I think the report
18 was written in June, where the CEC Staff, and I
19 know that the staff does not necessarily --
20 because it's a staff recommendation doesn't mean
21 it's written in law, but their recommendation that
22 all future plants be dry cooled is based on sound
23 science. And I really would like to see a
24 stronger statement about that in the document.

25 But ultimately, my final comment really

1 has to do with if I read this correctly, this
2 document is, in some ways, a petition by the
3 California Energy Commission to be given
4 responsibility, one-stop permitting
5 responsibility, for facilities beyond power
6 plants. Transmission lines, LNG facilities.

7 And as a veteran of CEC hearings, I have
8 a recommendation, and a positive recommendation,
9 not a recommendation to rehash old cases. It's to
10 protect California's resources you really need to
11 come at each one of these activities with a model.
12 You have a state-of-the-art model power plant;
13 state-of-the-art LNG facility; state-of-the-art
14 transmission approach.

15 And that you judge applications based on
16 a model that reflects state-of-the-art technology.
17 The current procedure of waiting in somewhat of a
18 passive role for the applicant to put something on
19 the table, and then review that on a case-by-case
20 basis, in my opinion, has not been working to the
21 benefit of California. Possibly to the applicant.

22 But that if I were to stand in judgment
23 of the petition to give this responsibility to the
24 California Energy Commission, I would want to see
25 the California Energy Commission setting a high

1 bar for each one of these facility types; and
2 leaving it up to the applicant to demonstrate what
3 extraordinary circumstances at a particular site
4 would prevent them from reaching that high bar.

5 Because without that, what you'll have
6 with these other facilities is what we now have
7 with many of these power plants in the state,
8 appeals and litigation. And that doesn't work for
9 business. If they get a 12-month license decision
10 from the Commission, and yet it sits in litigation
11 for 18 months or two years, no one's going to
12 invest in it.

13 And I think that you have probably one
14 of the best staffs anywhere that can lay out such
15 a model. And that it would greatly simplify the
16 process of licensing. It would eliminate people
17 like me showing up at proceeding after proceeding.
18 I think that alone might be motivation to consider
19 doing this.

20 But I think it's the way to go. Set a
21 high bar model and ask someone why they can't meet
22 it instead of letting everyone come as if we've
23 never licensed a power plant before, again and
24 again and again.

25 Thank you.

1 PRESIDING MEMBER BOYD: Thank you.
2 Commissioner Geesman.

3 COMMISSIONER GEESMAN: Bill, I think you
4 maybe read more into it, at least as it relates to
5 LNG siting authority, than has been intended. Or
6 at least my understanding from the drafts, what
7 was intended.

8 We do very specifically recommend
9 jurisdictional authority over transmission
10 expansions and refinery expansions. But I don't
11 think that what has been envisioned is a
12 Commission role in siting LNG terminals.

13 And the review that our legal office has
14 conducted there, as well as my recollection of the
15 way the 1978 Act ultimately played out, most of
16 the siting jurisdiction there is held by FERC.
17 There's a fairly limited state role. Largely at
18 the Coastal Commission in terms of conforming to
19 the Coastal Zone Management Act of any such
20 facilities.

21 But the state does not have a primary
22 jurisdictional role in the siting of those types
23 of facilities.

24 With respect to the R&D work being done
25 on cooling technologies, I think that's probably

1 Kelly Brownell in our PIER research program. And
2 my understanding of what they're doing is
3 attempting to explore ways to reduce the
4 generating efficiency penalties often associated
5 with dry cooling.

6 Actually I'm told it's Kelly Birkinshaw,
7 not Brownell, Kelly Birkinshaw. So, I'd suggest
8 that you be in touch with them if you are
9 interested in following up on that.

10 And I guess the last thing that I would
11 say, I do think your comments about tightening up
12 the definition of economically unsound are well
13 taken. And the earlier draft that I had seen
14 included a footnote which actually provided a
15 legal reference as to how that would be defined.
16 And hopefully we can get that back into the final
17 draft.

18 MR. POWERS: Thank you, Commissioner.

19 COMMISSIONER GEESMAN: Thank you.

20 PRESIDING MEMBER BOYD: Thank you, Mr.
21 Powers. On the footnote, as kind of the gas guy
22 Commissioner at the Commission, I've actually
23 given a few talks trying to say I'd rather see an
24 LNG plant in California and us reaping the benefit
25 than elsewhere.

1 But also as one who serves on the Local
2 Border Energy Forum and the Governor's Conference,
3 the Energy Table, where we have to have
4 relationship with Baja, it gets a little sticky
5 once in awhile.

6 In any event, I appreciate your
7 comments.

8 MR. POWERS: Thank you.

9 PRESIDING MEMBER BOYD: Wayne Sakarias.

10 MR. SAKARIAS: Good morning,
11 Commissioners. My name is Wayne Sakarias, and I'm
12 here for San Diego Gas and Electric and Southern
13 California Gas Company, although I'm going to be
14 talking about electric issues. We had somebody at
15 an earlier hearing talk about gas issues. Also,
16 my thanks to REO for hosting this.

17 We're excited that you're here and that
18 you're doing this. We think that there's a need
19 for leadership on energy policy. We're glad that
20 you're here and filling that role. And we're glad
21 that -- we appreciate you having this dialogue,
22 inviting us to participate in it.

23 What I'm going to do is touch on a few
24 key issues that we've identified. These are not
25 all of our thoughts on this. We're going to

1 submit some written comments, as well. But these
2 are the ones that I wanted to highlight on this
3 morning.

4 Specifically, energy efficiency,
5 renewables, transmission and research and
6 development.

7 On energy efficiency, we support the
8 energy action plan's goals of energy efficiency
9 having priority over other kinds of resources and
10 cost effective energy efficiency and demand
11 response programs.

12 This is really pretty important to us
13 because it's our responsibility to develop the
14 resource plan that serves the community that we
15 serve. And so we want to have a program that
16 results in the best outcome for our customers. So
17 we support those kinds of initiatives to promote
18 energy efficiency. We think that your ideas in
19 the report on having a standardized monitoring
20 mechanism is a good idea. We have some
21 inconsistencies in the level of monitoring of how
22 well we've done, depending on who, where, when and
23 how programs have been conducted. So, to get some
24 consistency across the board, so we know how well
25 we're spending our money, we think that's a good

1 idea.

2 I mentioned that we take this energy
3 efficiency is important as part of the resource
4 plan, because we need to find out what's the best
5 way to serve our customers. We've been doing this
6 for awhile. We've been doing energy efficiency
7 programs for a couple of decades, at least. So
8 it's something that we know something about.
9 We've had a lot of success in the past. And I can
10 go through numbers, but you have numbers in your
11 own report.

12 And the resource plan that we submitted
13 to the PUC has proposals for another million -- I
14 wrote this down -- 1.1 million megawatt hours over
15 five years of energy efficiency; 176 megawatts
16 associated with that. Plus 270 megawatts of
17 demand reduction programs over five years.

18 That's part of what we've proposed to
19 the Commission. Whether the Commission says do
20 more, do less, we'll see what happens. But that's
21 what we've proposed, based on the resource
22 planning process that we've done. So that's
23 pretty important to us. That's a big chunk of the
24 resource plan, just over the next five years.

25 The way we would deliver that is through

1 partnerships with others in the energy industry,
2 with communities, with cities and community
3 organizations and so on. And historically, of
4 course, we've had a leadership role in
5 administering a lot of these programs. And there
6 has been a lot of evolution back and forth and so
7 on, on that.

8 Because we think that ultimately we're
9 held to account for how did you get what you
10 needed in the resource plan. We think it's
11 important that we have a primary role in the
12 administration. How does that work in
13 coordinating with others who have those
14 objectives? I think we need to talk that one
15 through. Because obviously it's important to us
16 to make sure the job gets done and the job gets
17 done right. Because we're going to be the ones
18 who are asked what happened if it doesn't get done
19 right.

20 I do know that one of the things in the
21 energy action plan that's not discussed in the
22 report, I don't know whether it's going to be
23 discussed further, is the concept of utility
24 incentives on energy efficiency. We used to have
25 those before. I think they were very successful.

1 I've worked for SDG&E for a number of years and I
2 remember just how seriously people took those
3 things. But that's something I think is
4 worthwhile in continuing to look at.

5 Let me go on to renewables. And
6 actually I'm a little surprised we haven't had
7 more dialogue on renewables here this morning,
8 especially the timetable. The proposal to move
9 the timetable up for the RPS standard is one that
10 we support. We're very determined on renewables.
11 This is clear state policy and, as I said, we're
12 very determined on it. Whatever the schedule is,
13 our plan is to beat it. So if you kept it at 2017
14 we'd beat it; and if it was 2010 our plan is to go
15 out and beat it.

16 COMMISSIONER GEESMAN: Let me say on
17 that I think you guys are off to a very good
18 start. I think you've had a very successful year
19 in the --

20 MR. SAKARIAS: Last year was very good
21 for us. We went out and found a number of
22 proposals that were very attractive, and committed
23 to it. And really boosted it. As you know, we
24 did not have a lot of renewables --

25 COMMISSIONER GEESMAN: Right.

1 MR. SAKARIAS: We just don't have them
2 in the area that's been developed. But we got up
3 to about 7 percent right there. And that was a
4 good start. But it's just a start.

5 One thing that I think I would say is
6 for us to meet these goals of 2010, I think there
7 are some things that would be useful for us to see
8 if we can help facilitate them. I don't think we
9 can just wave our hands and magic gets there. I
10 think it's going to be a challenge.

11 First off, and I want to enumerate some,
12 and we'll talk about these more in our comments.
13 First off, I'm very concerned we don't have a lot
14 of renewables in this area. There's some wind
15 potential up in the national forest area, up in
16 the Laguna Mountains east of here. Obviously we'd
17 have the potential for photovoltaics, which we
18 don't know how fast that's going to roll out.

19 We've never had much success in seeing
20 solar thermal projects develop in this area. And
21 I just looked at a report that the Commission put
22 out last week on technical potential. And San
23 Diego, as compared with Edison and IID, which were
24 grouped together, the technical potential for
25 those two areas is 30 times what it is for San

1 Diego.

2 So I've got a lot of concerns about how
3 easy it's going to be to do it just internally.
4 And that means that we need to find a way to get
5 the power here. Whether it's geothermal from
6 Imperial Valley or wind from a number of the wind
7 areas up to the north, or even wind from our own
8 areas in the far east County.

9 There's a challenge of getting that
10 power to the load centers. National forest land,
11 state park. If you look at a map you'll see that
12 the San Diego area is well protected from invaders
13 coming through between state park land, national
14 forest land and tribal reservation land.

15 And so we've got a challenge here that
16 we need to confront. I'm going to talk about
17 transmission in a minute. But that's one thing we
18 want to think about, is how can we facilitate
19 getting power from remote sources here.

20 Secondly, and another way of
21 accomplishing this is through what some people
22 refer to as renewable energy credits. Some people
23 call them green tags. It's the separation of the
24 energy from the green-ness, if you will.

25 This is a way to access green power in

1 places where we don't have the transmission
2 potential ourselves to bring it down, but it can
3 still be connected to the system and delivered to
4 the grid and so on. This is something that we've
5 talked about some. There's some complexity in
6 developing schemes and so on of how it works. But
7 this is one I would encourage the state to move
8 forward on. I think it will be helpful to expand
9 our choices. And that is a way of helping to
10 manage our costs while we do the programs, because
11 these types of technologies have quite a range of
12 costs.

13 And a third thing that I would propose,
14 especially given some of the dialogue this morning
15 about solar and renewable distributed generation,
16 is let's look to see if there's a way we can count
17 renewable distributed generation toward the
18 renewable portfolio standard.

19 I'm not saying that's something that's
20 going to be perfectly easy to do, but I am saying
21 I think that would be useful. One reason it would
22 be useful is I think it would take away some of
23 the feeling that some have that we have an
24 interest that's adverse to our customers in the
25 context of renewables or distributed generation.

1 This would align our interests. We have an
2 objective, and our customers have an objective.

3 So I think that would be something that
4 would be well worthwhile looking into. I know
5 there's been some dialogue on that in the state.
6 And I would encourage us to press forward on that.

7 Transmission. I'm going to be pretty
8 blunt about this. I think it's nearly impossible
9 to build new transmission in California right now.
10 You know, we're a pretty well developed state, and
11 nobody wants the big power line running anywhere
12 near them. Even if the area is not very
13 developed, they don't want it running anywhere
14 near them. And that's obviously understandable.

15 It's also very expensive to even propose
16 it, because you have people who don't like that
17 idea too much.

18 And my personal belief is that that
19 ultimately jeopardizes our reliability. Why do we
20 build transmission? We build it for reliability
21 and we build it to give us choices. Choices of
22 where do we go to get power. Whether it's
23 renewables from the Tehachapis, or geothermal from
24 Imperial Valley. Or whether it's low-cost hydro
25 power, as you mentioned, from the Pacific

1 Northwest or whatever, it gives us other choices
2 that we can look to for the benefit of our
3 customers.

4 And I think that if we do not look to
5 enhance our infrastructure, we are really limiting
6 our ability to serve our customers as best we can.

7 I don't think it's very easy to build
8 transmission now. We are very supportive of the
9 Energy Commission's proposal to try to make this a
10 one-stop shop for transmission, as they've done
11 for generation in the past. Let me add a
12 qualification to that. If it means just another
13 layer of regulatory process that wouldn't be good.
14 It's too hard already. If it means a way of
15 streamlining it, yes, that's what we need. We
16 need to find some way to deal with the question of
17 how do you site transmission, given all the
18 countervailing concerns that people have. All of
19 which are quite legitimate, in my view.

20 Another piece of the transmission issue,
21 it seems to me, and I alluded to this a little
22 while ago, is the question of corridors. San
23 Diego does not have a lot of transmission
24 corridors coming into the area.

25 If you look at a map the southwest power

1 link occupies a very small area way to the
2 southern part of the state. And the corridor's
3 only, I think, three miles wide.

4 And we don't like to build transmission
5 too close to each other, because if you have an
6 event it could take both your lines down. And
7 then you've not increased reliability one bit. So
8 we like to have separation.

9 If you move to the north all of a sudden
10 you have public lands or you have tribal
11 reservation lands. And I think it would be useful
12 if we can find a way to use state lands to help
13 establish corridors. There's lots of interests
14 and concerns here, obviously. These state lands,
15 a lot of it is wilderness land, land we want to
16 preserve and protect. So it's a big challenge.

17 But for us to work together to find a
18 way to establish these corridors, I think, is
19 essential. When I look at the maps of San Diego I
20 don't know how else you get the transmission in
21 here.

22 Research and development. We're not 100
23 percent comfortable that RD&D funds are going to
24 their best uses. And I'm going to offer two areas
25 that I have in mind here.

1 One is under SB-1038 the CEC is
2 authorized to award up to 10 percent of PIER
3 program funds for public interest T&D functions.
4 I don't think we're using all 10 percent in that
5 respect. And I think we want to look to see
6 whether it would -- we think it would probably be
7 good to get up to the 10 percent. But if there
8 are reasons why we aren't, we might want to look
9 at why that is.

10 Secondly, we're quite interested in
11 seeing R&D funding go as much as we can to address
12 the kind of local needs, like renewables
13 developments locally. We've had a lot of
14 discussion here locally about the local interest
15 in renewables, kind of what we used to refer to as
16 energy cul-de-sac issue. And the kind of the
17 relationship between the distributor resources and
18 the distribution system and so on.

19 I think overall this is an area where we
20 think the utility probably ought to have some more
21 input and participation so that we can help to at
22 least share what we think needs to be done, and
23 maybe administer some of those funds in some way.

24 Let me say before I just finish, because
25 I've been gabbing way too long, I think, but one

1 thing that struck me, and I think it was Karen
2 mentioned it, and I thought it was very telling,
3 because I wrote the same word down in my notes.
4 Is the process we're engaging in is kind of a
5 holistic function. Trying to gather all these
6 different areas and group them together, and it's
7 a very daunting task.

8 But I think this is the only way we can
9 press forward on this. One of the ideas that
10 we've had recently, and I haven't had any dialogue
11 with any of you about it, and I don't know how
12 familiar you are with it, is a program that we've
13 wanted to try and find a way to get the
14 development of renewables and energy efficiency
15 matched with how our distribution system operates
16 in something we call sustainable communities
17 program.

18 It's a thing we have proposed in our
19 cost of service case which begins tomorrow, I
20 believe. One thing we see this is, is kind of the
21 wave of tomorrow. Instead of doing everything in
22 a fragmented piecemeal way, we look at it as a
23 group.

24 Our proposal is get together with
25 developers and find a way for them to combine in

1 their development renewables, different kinds of
2 renewables, fuel cells or photovoltaics, plus
3 energy efficiency built into the project when they
4 start it up. And we match that with our
5 distribution grid.

6 We think it's a nice idea. It's a neat
7 idea, it's something we think we can work with
8 communities on, and community organizations on to
9 find where can we start doing this. First program
10 we've announced is an infill project in East San
11 Diego that we've been talking with the developer
12 on.

13 This is something that we think is kind
14 of the next wave, and it's an example of just kind
15 of holistic things. And we'd love to have
16 dialogue with you about how could those kinds of
17 things work.

18 Because ultimately what we see is that's
19 a thing that the marketplace can do. But today
20 it's so fragmented and piecemeal that it will
21 never get done. And that's why we've proposed it.

22 COMMISSIONER GEESMAN: Have you got
23 something written up on that?

24 MR. SAKARIAS: Yes, we do. We have it
25 in our testimony, but I'd be happy to share what

1 we have with you.

2 COMMISSIONER GEESMAN: If you could send
3 it up to us --

4 MR. SAKARIAS: Absolutely.

5 COMMISSIONER GEESMAN: -- it would be
6 very helpful.

7 MR. SAKARIAS: And we'll submit our
8 written comments on the rest of this. I
9 appreciate you taking the time for us today.

10 PRESIDING MEMBER BOYD: Thank you.

11 COMMISSIONER GEESMAN: Thank you.

12 PRESIDING MEMBER BOYD: Commissioner
13 Geesman has a comment.

14 COMMISSIONER GEESMAN: I appreciate what
15 you said about the difficulty of siting
16 transmission lines, but, you know, nobody wants a
17 power plant, either. And historically the
18 reputation has been that it's been very difficult
19 to site power plants in California. In fact, I
20 think most of my adult life I've heard how
21 difficult it is to site power plants in
22 California.

23 My colleagues, though, -- I haven't been
24 on the Commission long enough to really claim much
25 credit for this, but since 1999 my colleagues have

1 sited 41 power plants in California, 16,500
2 megawatts. There is no other five-year period in
3 our history as a state where there's been that
4 large a jump.

5 And I think you talk to any of the
6 developers that have gone through that process,
7 including Sempra, because I sat on that case,
8 we're not easy marks. It is a tough, demanding
9 process, and not every project makes its way
10 through.

11 But nevertheless, there have been 41
12 that have over the last five years. And I think
13 the reason for that has been there has been a bit
14 of a consensus as to the necessity of doing it.

15 I think in transmission what we lack
16 today, but hopefully will achieve over the next
17 several years, is a similar consensus. And I
18 think your comments about renewables and
19 transmission are a large part of that.

20 The public very strongly supports what
21 California is doing in placing more reliance on
22 renewable energy sources. The same Public Policy
23 Institute study that I mentioned earlier this
24 morning found 81 percent Californians thought that
25 we ought to double our reliance on renewable

1 energy sources over the course of the next decade.

2 We are not going to be able to do that
3 without a massive improvement in our transmission
4 system. There, I think, is a bit of a mis-
5 impression that renewables are limited to the
6 photovoltaic panels that you put on your rooftop.
7 Instead the renewables that we will likely see
8 greater reliance on over the course of the next
9 ten years are remote from load centers and they're
10 geothermal and wind, and to a lesser extent,
11 biomass in terms of their energy types. Those
12 will require wires to bring the output to the load
13 center.

14 I think that the clearer we can be on
15 that the more understanding and supportive the
16 general California public will be. And I do
17 anticipate we're always going to have local
18 resistance to infrastructure facilities sited
19 locally.

20 Even in the most popular of those 41
21 plants, there has been quite legitimate concern
22 why are you going to put it in my backyard. But I
23 think that as a state we can overcome that. And I
24 think that it would be in the best interests of
25 the public if we're able to overcome it in the

1 transmission area.

2 MR. SAKARIAS: First off, I agree with
3 all of what you said there. I wanted to share
4 some experience that we had.

5 The last power plant that SDG&E sought
6 to pursue development of was a repower of what we
7 used to call the South Bay Power Plant. It's now
8 owned by the Port of San Diego.

9 And the challenge that we faced with
10 that was not only dealing with the water
11 discharge, which was a huge huge issue, but also
12 with the fact that when we repowered and added
13 more generation we needed to enhance the
14 transmission right through the middle of town.

15 And that's going to be the problem we'll
16 see with any new development of generation unless
17 it's utterly wireless. And most renewables, as
18 you say, are not utterly wireless.

19 And so that's a big challenge, I think.
20 I would agree, I think the Energy Commission has,
21 and the state, has taken to heart the concern
22 about siting. In some sense I'm not sure the have
23 fully -- we've fully caught onto the fact that
24 once we site it doesn't mean it gets built. And
25 that's going to be a problem, not only for -- for

1 all kinds of generation, for all kinds of
2 generation it will be an issue.

3 And so that whole process of deciding
4 what you commit to and what you don't, for how
5 long and so on, is one we're going to have to
6 probably improve upon so it's less uncertain. I
7 think there are a lot of people that are just a
8 little scared of California, too.

9 Thanks very much.

10 COMMISSIONER GEESMAN: Thank you.

11 PRESIDING MEMBER BOYD: Thank you.

12 Well, that exhausts the cards I have. Is there
13 anyone who didn't get an opportunity to speak who
14 would like to take this opportunity, or has
15 decided they would like to take advantage of this
16 opportunity? You got us all the way out of
17 Sacramento down here.

18 Well, if not, I'd like to thank all of
19 you for participating today, for coming. And for
20 your promise of written submissions, as well as
21 the testimony.

22 And I guess we're adjourned. Thank you.

23 (Whereupon, at 11:37 a.m., the hearing
24 was adjourned.)

CERTIFICATE OF REPORTER

I, JAMES RAMOS, an Electronic Reporter,
do hereby certify that I am a disinterested person
herein; that I recorded the foregoing California
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I further certify that I am not of
counsel or attorney for any of the parties to said
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said hearing.

IN WITNESS WHEREOF, I have hereunto set
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